



16 October 2014

Jemena Gas Networks
(NSW) Ltd
ABN 87 003 004 322

Via email

Mr Greg Everett
Chief Executive
Delta Electricity
PO Box Q863
QVB NSW 1230

Level 20
111 Pacific Highway
North Sydney NSW 2060
PO Box 1220
North Sydney NSW 2059
T +61 2 9455 1500
F +61 2 9455 1589
www.jemena.com.au

Dear Mr Everett

Jemena Gas Networks 2015-20 Access Arrangement Proposal – Delta Electricity submission

I am writing in response to Delta Electricity's (**Delta**) submission on Jemena Gas Networks' (**JGN**) 2015-20 Access Arrangement Proposal (**proposal**), which was submitted to the Australian Energy Regulator (**AER**) on 30 June 2014.

Your submission raises a number of important matters regarding our proposal. In summary these are:

- tariffs for industrial customers and the impact of the carbon repeal
- customer class re-balancing
- our current period capital expenditure
- engagement with our large customers on our proposal.

[c-i-c]

[C-i-C]

Customer class re-balancing

Your submission notes the challenge we face in ensuring we support sustainable pricing outcomes for all our customers (both residential and commercial) within the context of short-term variations to other economic pressures our customers are managing.

We appreciate your acknowledgement of our efforts to support our industrial customers through the short-term impacts of the global financial crisis and the impact of the carbon legislation. However, during this time, it was important for us not to lose sight of the importance of our longer-term objective of cost-reflective pricing outcomes for all our customer groups.

It is, unfortunately, unsustainable for our business to continue to discriminate against our residential customers to the benefit of industrial customers, and it does not accord with the long-term interests of the customer base, considered as a whole.

We will endeavour to manage the impacts of transitioning our large customers to a more sustainable (and the historic) share of our total costs. For example, we proposed a steady large customer average price path of 2.5 per cent real annual increases, consistent with the price path for the 2010-15 period. We are also offering a chargeable demand reset for all large customers from 1 July 2015.

We appreciate that prices increase will concern our large customers, and it is for this reason we raised our proposal with you prior to lodging our proposal with the AER.

Our current period capital expenditure

We note that Delta has questioned whether the AER should include our current period capital expenditure into our regulatory asset base.

Delta should be comforted to know that the AER has full power to exclude any inefficient capital expenditures from our regulatory asset base. JGN provided the AER a significant volume of data and information that compared our capital expenditures to the AER's allowances, and also our original proposal back in 2009.

We consider that our current period capital expenditure is prudent and efficient and will continue to deliver a safe, reliable and cost-effective gas service to our customers.

Consultation

We are disappointed that you feel that we did not appropriately consult with you prior to the lodgement of our proposal.

JGN tailored our customer and stakeholder engagement program to try and suit each of our customer cohorts. Our understanding was that our large customers (including Delta) were time-poor, and consequently valued us consulting directly with their industry representatives in addition to the one-on-one discussions we had with them.

JGN Customer Council (CC) meetings

EUAA and AIG representatives are members of the JGN CC. JGN emails fact-sheets to all CC members two weeks prior to each CC meeting, as background to the issues to be discussed at each CC meeting. The fact-sheets sent for the meetings of 26 February 2014 and 29 May 14 stated our intentions for the large customer price path.

At the JGN CC on 26 February 2014 and 29 May 2014, our senior management explained our intentions for the large customer price path. While invited, and having received the fact-sheets prior to the meetings, unfortunately representatives of the AIG or EUAA could not attend either meeting.

The presentations and factsheets were made available to the general public on our website soon after each meeting.¹ We note that Delta (Joy Chan and John Byrnes) is registered with us to receive email updates as new materials are added to our website.

Email and telephone communication – Meeting 23 December 2013 and follow up emails with Joy Chan and Frank Xing

During these discussions we covered three topics with Delta representatives:

- forecasting demand for 2015-20 period
- pricing and tariff structures (chargeable demand reset and grandfathering of the first response tariff)
- our customer and stakeholder engagement plans.

¹ See <http://jemena.com.au/Gas/Customer-Engagement-and-Price-Review/Engaging-with-the-community.aspx>

Meeting with Self Contracting Users – 8 May 2014

This purpose of this meeting was to engage with our self-contracting users, including Delta, and we discussed matters we understood to be relevant to Delta in the context of our proposal:

- our 2015 AA customer engagement including what we heard from customers on our engagement sessions to date
- our current thinking on our 2015 AA and what this means for customers
- our proposed changes to our 2015AA
- our proposed changes to our tariffs and our agreements.

Ongoing commitment

We welcome constructive feedback that will help us continually improve how we engage with and serve our industrial customers. We are keen to work with you to ensure we continue to provide a service that meets your needs.

You have been dealing directly with Jemena's Phil Glasscock on proposal and business-as-usual matters. Phil is available on 02 9455 1590 if you wish to discuss our price and service offerings. We look forward to providing you a value for money natural gas service into the future.

Yours sincerely



Frazer Hill
General Manager Commercial
Jemena Limited